Corporate Subsidies and Political Connections:
State-level Evidence

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ABSTRACT

This paper examines whether corporate political connections are associated with government-awarded subsidies, and how this relation impacts subsidy effectiveness in spurring future economic growth beyond the firm. Subsidies relate to foregone government revenues through tax credits/abatements and to government resource transfers through grants and cost reimbursement programs. Using novel datasets to identify state-awarded corporate subsidies and corporate contributions to state political candidates, we find robust evidence that political contributions increase both the likelihood a company is awarded a state subsidy and the dollar value of subsidy awarded. Companies contributing to a greater number of candidates, to both Republican and Democratic Party candidates, and to both gubernatorial and legislative candidates reap the greatest subsidy benefits. We find some evidence that state subsidies are positively associated with a state's future intra-industry economic growth, and that subsidies awarded to politically connected companies are associated with lower growth. Our findings suggest quid pro quo behavior in the state subsidy award process results in a less efficient allocation of government resources, consistent with taxpayers being harmed by pay-to-play cronyism.

INTRODUCTION

Prior research provides ample evidence of a positive relation between corporate political connections and firm value (e.g., Fisman, 2001; Faccio, 2006; Goldman et al., 2009; Cooper et al., 2010), but less evidence as to the *channels* through which the relation manifests.[1] In addition, few studies in accounting or finance consider the economic impact of political connections beyond the firm (presumably because the channel through which value is created is not identified). We seek to fill these voids in the literature by examining the relation between *state-level* corporate political connections and state-awarded corporate subsidies, and how this relation impacts subsidy effectiveness in spurring future economic growth beyond the firm.

Proponents of state-provided corporate subsidies view the practice as a win-win for both taxpayers and shareholders. From a taxpayer's perspective, state-provided economic incentives encourage corporations to make investments in local human capital and infrastructure, which spurs economic development and generates a larger future tax base (e.g., Cobb, 1993; Jenkins et al., 2006; Baybeck et al., 2011). From a corporation's perspective, state-provided subsidies lower the cost of doing business – generally with few strings attached.[2] Critics argue that state-provided corporate subsidies are one side of a quid pro quo relationship built on "insidious cronyism" (Brunori, 2014) and pay-to-play policies that favor those with political connections (e.g., Schlozman and Tierney, 1986; Baumgartner and Leech, 1998). For example, when a close friend of New Jersey Republican Governor Chris Christie oversaw the New Jersey Economic Development Authority, more than $1 billion of subsidies were awarded to 21 companies with

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[1] Studies that do identify a channel are generally industry-specific (e.g., the U.S. steel industry (Schuler, 1996), U.S. financial institutions during the 2008 financial crisis (Durchin and Sosyura, 2012)). We seek to study a channel potentially available to all companies in all industries.

[2] While many states have added "clawback" provisions to subsidies in recent years, enforcement varies dramatically across states and programs (Mattera et al., 2012).

close ties to Governor Christie and the Republican Party, while only one company with strong Democratic Party ties was awarded a subsidy (Swain, 2014). However, it is not clear whether this anecdotal evidence of quid pro quo behavior generalizes to state-provided corporate subsidies on average.

There are several benefits to conducting state-level analyses. First, there is rich cross-sectional and time-series variation in the types and amounts of government subsidies awarded. Approximately 75 percent of state-awarded subsidies relate to foregone government revenues through tax abatements, credits, and rebates. These tax benefits relate to a variety of types of taxes (e.g., income, sales, property, payroll, etc.). The remaining 25 percent relate to resources transfers from the state government to the company through cost reimbursement programs (often job training-related), grants, and low-cost loans. Second, in contrast to federal-level political connections, a company's state-level political connections can induce company-specific rents. The U.S. federal government often grants preferential treatment to specific industries or activities, but not specific companies. To illustrate, the federal government has not granted preferential tax treatment to specific companies since 1986 (Chen et al., 2015).[3] To the extent a company's federal political connections yield federal tax preferences, these preferences are also enjoyed by competitors.[4] In contrast, U.S. state governments have a long history of awarding financial subsidies to individual corporations. Multi-million dollar subsidies have been awarded to well-known U.S. companies like Amazon, Boeing, Exxon Mobil, and General Motors, as well as well-

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[3] Examples of corporate federal tax preferences include the income tax credit for qualified research and experimentation activities (available to corporations in all industries) and income tax deductions for domestic production activities (available to corporations with qualified manufacturing activities).
[4] Outside the U.S., Article 107 of the Treaty on the Functioning of the European Union (E.U.) generally prohibits Member States from providing company-specific subsidies (also known as "state aid") on the premise that these subsidies distort competition (Faulhaber, 2017). The European Commission's 2016 ruling that requires Apple to pay €13 billion in back taxes and interest to Ireland is an example of an EU Member State providing (what was determined to be illegal) state aid.

known foreign companies like Royal Dutch Shell, Sasol, Toyota, and Volkswagen. A New York Times article notes that "for local governments, [economic] incentives have become the cost of doing business with almost every business" (Story, 2012).

We identify state-awarded corporate subsidies using a novel dataset from Good Jobs First., corporate and government accountability watchdog agency. Our sample is comprised of publicly traded companies that receive a subsidy from at least one state during 2000 through 2014. Focusing only on companies that receive a subsidy from some state at some point in time helps address concerns that non-subsidy observations merely capture firms unlikely to be selected as subsidy awardees due to factors that are unobservable or difficult to measure. We identify state-level candidate campaign contributions by corporations and their corporate-sponsored political action committees (PACs) using a novel dataset from the campaign finance watchdog agency National Institute of Money in State Politics (NIMSP).[6] Our final sample includes 545,345 company-year-state observations; 8,676 observations are classified as state subsidy awardees and 44,060 observations are classified as politically connected at the state level.

Our analyses reveal a robust positive relation between corporate political connections and state-awarded corporate subsidies. Specifically, we find a corporation is more likely to receive a state-provided subsidy when the corporation (1) makes a financial contribution to political candidates in the state, (2) contributes a larger dollar amount to these state-level candidates, and (3) contributes to a greater number of state-level candidates. These three factors are also associated with receiving a larger subsidy amount. Companies contributing to a greater number of candidates, to both Republican and Democratic Party candidates, and to both gubernatorial and legislative

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[6] A political action committee (PAC) is an organization that solicits contributions from individuals and corporations for use in supporting or opposing political candidates, ballot initiatives, and legislation. Corporate-sponsored PACs often solicit employees for personal financial contributions; these contributions are then used to support candidates with policies favorable to the corporation (Conlin and Lozada, 2015).

candidates reap the greatest subsidy benefits. We address the possibility that the positive contribution-subsidy relation is confounded by (or simply capturing) a company's presence in a state through both control variables and subsample analyses. We also exploit time-series variation and continue to find a positive association between corporate political contributions and state-awarded corporate subsidies. These findings are consistent with critics' concerns of cronyism and the pay-to-play nature of state government subsidies.

Using state subsidy and state political connections data permits us to define our unit of observation as a company-year-state, which holds constant company-year characteristics and varies only the extent to which a company-year is associated with a contribution to a political candidate in state k or a subsidy awarded by state k.[7] We include company-year fixed effects, which allows us to compare the relation between political contributions and subsidies for a given company-year across states. This means that anything about a company at a point in time that does not vary across states cannot affect our inferences. We also include state-industry-year fixed effects, which addresses the concern that a state interested in stimulating an industry at a point in time happens to award subsidies to a politically active industry. These two sets of fixed effects eliminate the need for company-, state-, industry-, and macro-level control variables, and reduce the likelihood that inferences are driven by correlated omitted variables. The use of fixed effects also reduces the likelihood that time-varying company-level control variables induce inconsistent estimates (Gormley and Matsa, 2014).

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[7] Gupta and Mills (2002) provide descriptive evidence using a sample of large publicly traded firms that the median firm files income tax returns in 38 states. A corporation generally has a state income tax filing obligation when it has "nexus," or a sufficient physical presence (i.e., some level of operations), in a state. We view 38 as a lower bound on the number of states a firm has operations in because anecdotal evidence suggests states often do not file in all states in which they have nexus.

Our second research question considers whether awarding subsidies to politically connected companies is a better or worse use of taxpayer money, relative to awarding subsidies to companies without political connections. Some theoretical work suggests quid pro quo behavior in government results in the inefficient allocation of taxpayer funds (e.g., Stigler 1971; Banerjee 1997). In contrast, other theoretical work suggests political connections reduce information asymmetries between politicians and companies, which leads to better project/investment identification and greater allocation efficiency (e.g., Downs 1957). Subsidy proponents argue that considering economic growth beyond the subsidy-receiving company paints a more complete picture in assessing subsidy effectiveness (e.g., Klein and Moretti, 2013; Dolan, 2015). We examine the relation between subsidy awards and intra-industry economic growth at the state-year level, and whether politically connected subsidy-receiving companies are more or less effective in contributing to this growth. We find some evidence that subsidies are positively associated with intra-industry future economic growth, and that political connections moderate this relation. This finding suggests that quid pro quo behavior in the subsidy award process results in a less efficient allocation of government resources, consistent with taxpayers being harmed by pay-to-play cronyism.

In summary, we provide large-sample evidence of a positive relation between corporate political connections and government subsidies. Our findings identify state-awarded corporate subsidies as one of the channels through which political connections create firm value. In the accounting literature, our paper is mostly closely related to findings that companies with federal political connections pay less income tax (e.g., Kim and Zhang, 2016; Brown et al., 2015; Chen et al., 2015). Kim and Zhang (2016) acknowledge their research is "largely explorative in nature…[and] leave the empirical investigation of the underlying mechanisms for future research"

(p.107). Our study provides strong identification of the mechanism (state political candidate contributions) through which value is created (state-awarded corporate subsidies). Finally, we find some preliminary evidence that taxpayers are harmed by this quid pro quo behavior, as these subsidies represent a less efficient allocation of government resources.

Our findings have important implications for both governmental and public company financial reporting standards setters. In recent years, both groups are grappling with what state governments and public companies should disclose regarding state-awarded subsidies. In 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 77 '*Tax Abatement Disclosures*' to increase public awareness of corporate subsidies granted by state and local governments. Although the standard requires state and local governments to disclose the annual *aggregate* dollar value of subsidies granted, recipient names and per-recipient amounts are not required to be disclosed (GASB, 2015). Critics argue that aggregate disclosure will fails to generate the transparency needed to discipline the subsidy-granting process, as taxpayers cannot determine which companies are receiving subsidies (and whether these companies are politically connected). More than half of the 301 comment letters in response to GASB Statement No. 77 recommend disclosure of per-recipient dollar amounts and/or recipient names. Also in 2015, the Financial Accounting Standards Board (FASB) issued Proposed Accounting Standards Update (ASU) *'Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance.'* This proposed ASU would require companies to disclose the nature, significant terms and conditions, and financial statement impact of all government subsidy awards (FASB, 2015).[8] As of the writing of this draft, the FASB has not issued a final ASU on the topic. Given our finding

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[8] While FASB voted to exclude income-tax related subsidies from the proposed ASU in June 2016 because government grants that impact income tax expense are required to be disclosed in the financial statements or footnotes per ASC 230-10-50-9(d), it added income-tax related subsidy disclosure to an income-tax specific proposed ASU one month later (FASB, 2016).

that corporate political connections affect the subsidy award process and some preliminary evidence that subsidies awarded to politically connected companies are a less efficient allocation of government resources, we expect taxpayers to be interested in which corporations receive state subsidies and the dollar amount of these subsidies.

The remainder of this paper proceeds as follows. In the second section we provide institutional details regarding the state subsidy granting process and state campaign finance law. In the third section we discuss data sources and our research design. The fourth section discusses our findings, and the final section concludes.

INSTITUTIONAL DETAILS

State subsidy granting process

While the subsidy granting process can differ by state, there are several common elements. State governments have commerce departments and/or economic development agencies focused on growing their state's economy, primarily by retaining existing and generating new jobs and businesses in their state.[9] These departments/agencies can be part of the governor's office, or operate as a quasi-governmental agency overseen by the governor's office or state legislature. States often advertise their business-friendly practices through press releases and popular press interviews. For example, in March 2017 the Baltimore affiliate of CBS aired a story featuring Maryland Secretary of Commerce Mike Gill, the political appointee responsible for overseeing Maryland governor Larry Hogan's economic growth agenda. Gill noted that "…the key to success

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[9] The academic literature generally fails to find evidence that state subsidies impact a recipient firm's location or investment decision, or provides a meaningfully positive impact on the local economy (see Buss (2001), Bartik, (2005), and Greenbaum and Landers (2009) for literature reviews). Many of these studies focus on a single state program or type of program. In contrast, we examine a variety of subsidy types awarded across all states to publicly traded companies.

in economic development is growth through retention…we gotta get out there and tell and sell the Maryland story" (CBS, 2017). Commerce departments and economic development agencies generally have the authority to determine which companies are eligible for "canned" subsidies pre-approved by the governor or state legislature.

However, industry experts note a recent shift "away from 'as of' or strictly legislated programs to more discretionary incentives. To act more boldly and swiftly, governors and economic development leaders increasingly have access to more closing funds, which can not only speed the process but also lead to some flexible or creative opportunities" (EY, 2016, p.6). Thus, larger corporate economic incentive packages are often tailored to specific companies, and generally require special approval from a state's governor and/or state legislatures. The dollar value requiring special gubernatorial and/or legislative approval varies by state. State subsidy critics seem most concerned with these discretionary incentives.

To illustrate, during Rick Perry' 15 year tenure as governor of Texas, he used the Texas Enterprise Fund to award more than $500 million in economic incentives to corporations interested in relocating to or expand operations within Texas. This fund was created in 2003 by the Texas state legislature at Perry's request and permitted Perry (with sign-off required by the lieutenant governor and state House speaker) to grant economic incentive packages to individual corporations. However, some allege that Perry used the fund as a "political slush fund, giving handouts to corporations and executives that support him. The governor has collected millions of dollars in campaign contributions from executives, political action committees and investors tied to companies that have received Enterprise Fund awards…Perry's office has vehemently denied that such contributions influence the governor's decision-making" (Ura, 2014).

In addition, companies seeking subsidies can also proactively contact state officials and economic development agencies (CBS, 2017). Companies interested in relocating or expanding their operations often hire site location consultants, who in turn solicit subsidy offers from states' economic development agencies.[10] A former General Motors real estate manager justifies the location-shopping practice by noting that "management owes it to their stockholders to try to get the best economic deal that they can" (Story, 2012).[11] Ultimately, the subsidy process is a two-way street, with Maryland Secretary of Commerce Gill noting that "economic development is a team sport, it takes everybody trying to go in the same direction to make things happen" (CBS, 2017).

Laws regulating political campaign contributions are enacted to help attenuate the link between money and political influence (Witko, 2005). There is significant cross-sectional and time-series variation in the extent to which state campaign finance law regulates corporate direct and indirect political contributions to candidates pursuing a state government office. Appendix A provides a list of which states permit direct and indirect political contributions by corporations to candidates pursuing a state government office. Twenty-nine states allow corporations to make political contributions directly to candidates; six allow an unlimited dollar amount and the remaining 23 impose a dollar limit. The remaining 21 states prohibit direct contributions by corporations to candidates seeking state office (NCSL, 2016). However, all states permit *indirect* corporate contributions to state office political candidates through corporate-sponsored PACs.[12]

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[10] For more information on the role of site location consultants, see http://www.goodjobsfirst.org/corporate-subsidy-watch/site-location-consultants (last accessed March 10, 2017).

[11] On occasion even CEOs of companies that receive state subsidies acknowledge that the incentives are not a government's sharpest tool to stimulate long-term job growth. Hallmark is the recipient of more than $7 million in subsidies from Missouri and $1 million in subsidies from Kansas (GJF, 2013), and Hallmark CEO Donald Hall Jr. notes that "…this use of incentives is really transferring money from education to business" (Story, 2012).

[12] Corporate-sponsored PACs are only permitted to solicit voluntary financial contributions (up to $5,000 per year) from salaried employees with decision-making capacity, shareholders, and these two groups' families (Jacobs et al., 2016). All donors must be U.S. citizens or green card holders. The corporation is permitted to pay all of the PAC's

Fourteen states permit unlimited corporate donations to PACs, and the remaining 36 impose a dollar limit (NCSL, 2016). Thus, corporations can contribute either directly and indirectly to political candidates in all 50 states.[13]

The relation between subsidies and future economic growth

Subsidy-related economic growth fueled by companies other than the subsidy-receiving company can take many forms. An article discussing the $1.6 billion automotive plant that Toyota and Mazda are expected to build in Alabama notes that "….the impact of an auto assembly plant extends beyond its immediate economic impact, and that's why states offer robust incentives….it creates a halo effect that in turn helps attract other projects" (Shepardson and Woodall, 2018). For example, if subsidies provide incentives to the recipient company to expand operations within a state, then this company's supply chain partners in close proximity also have incentive to expand operations within the state. In addition, complementary businesses may flock to the region to better harness the subsidy-receiving company's products and industry knowledge. An article discussing the $3 billion subsidy Wisconsin awarded FoxConn in 2017 illustrates this point: "Wooing Foxconn wasn't just about winning one factory….[it was about] Foxconn attracting new companies working on developing applications for the LCD technology in medicine, security, and advanced manufacturing" (Zumbach, 2017).

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administrative, legal, and solicitation costs so 100 percent of contributions can be used to support candidates with company-favorable policies. Employees are solicited via email and direct mail, and can receive small company perks for contributions. For example, British Petroleum employees who contribute at least 2.5 percent of their salary to the company's corporate-sponsored PAC receive choice parking spots, and Wal-Mart employees who contribute to the company's corporate-sponsored PAC receive a two-for-one match to Wal-Mart's internal social services program for employees in need (Conlin and Lozada, 2015).

[13] As of 2010, federal law permits corporations to make unlimited contributions to Super PACs, and state agencies and courts generally follow federal law on this issue (Covington, 2016). We do not study Super PACs because donations to Super PACs do not have to be disclosed (which is why Super PAC contributions are often referred to as a type of "dark money") (https://www.opensecrets.org/dark-money/basics; last accessed May 12, 2017).

Economic growth can also occur in industries completely unrelated to the subsidy-receiving company. For example, local stores and restaurants could expand their operations to meet the growing needs of additional or higher salary workers. As 2016 Kentucky gubernatorial candidate Drew Curtis notes "…when Toyota moved to central Kentucky, hundreds of other companies set up shop here as well. Magnified positive network effects are what I'm looking for if I'm going to offer tax incentives to a company" (Sonka, 2015).

DATA SOURCES AND RESEARCH DESIGN

Data on government-awarded subsidies to corporations

We use a novel dataset to identify more than 600 U.S. federal, state, and local economic development programs and other forms of governmental financial assistance to corporations. Good Jobs First (GJF), a national policy resource center promoting corporate and government accountability, created the Subsidy Tracker 3.0 dataset by compiling subsidy-related information from (i) state and local government disclosures via reports and websites, (ii) direct data requests to government agencies through Freedom of Information Act (FOIA) requests, (iii) government and corporate press releases, (iv) newspaper articles, and (v) reports on specific projects by academics, government agencies, and non-profit organizations (GJF, 2013).[14] While states vary in their voluntary disclosure of company-specific subsidies, they are required to comply with FOIA requests, reducing the likelihood of state-level disclosure bias.[15]

As of January 25, 2016, the GJF Subsidy Tracker 3.0 data ("the GJF data") identifies 2,036 public and private parent companies associated with 36,526 unique state-awarded subsidies

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[14] A complete list of data sources GJF relied on when creating the Subsidy Tracker 3.0 dataset is available on the GJF website (http://www.goodjobsfirst.org/subsidy-tracker-state-data-sources; last accessed February 18, 2016).
[15] We include state-industry-year fixed effects in our research design to mitigate potential bias from differences in disclosure by state, industry, or year.

awarded from 1976 through 2016. Parent companies include 95 of the Fortune 100 and 749 of the Fortune 1000, suggesting an economically important group of publicly companies receive government subsidies. State-level subsidies comprise approximately 75 percent of the subsidy values to these 2,036 parent companies.[16] All 50 states award corporate subsidies during our time period. State-awarded subsidies relate to income tax credits/rebates, sales tax credits/rebates, property tax abatements, grants, low-cost loans, enterprise zone programs, tax increment financing, cost reimbursements, and infrastructure assistance. We link the GJF data to Compustat by company name (*conm*) using a name-based fuzzy matching algorithm. All possible matches were manually reviewed for accuracy. Of the 2,036 parent companies in the dataset, we identify 1,259 as publicly traded companies with Compustat data. We align GJF subsidy award year with Compustat fiscal year (*fyear*). Examples of subsidies from the GJF database are included in Appendix B.

We note two limitations to the GJF data related to how GJF matches subsidiary companies to their ultimate parent company. First, GJF matches a subsidiary company to its ultimate parent using Exhibit 21 data. To the extent Exhibit 21 fails to include all of a parent's subsidiaries, our sample could exclude some state subsidies received by subsidiaries of publicly traded companies.[18] As we use the GJF list of parent-subsidiary matches to identify corporate political contributions aggregated by NIMSP, incomplete Exhibit 21 disclosures is expected to

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[16] GJF notes that these 2,036 parents "come from matching efforts involving all the companies on the following lists: the Fortune 1000, the Fortune Global 500, the companies listed on the New York Stock Exchange, the S&P 500, the Forbes list of the 224 largest private companies in the United States, the Uniworld list of the 1,000 largest foreign firms operating in the United States, and the Private Equity International list of the 50 largest private equity firms" (GJF, 2016).
[18] Item 601(b)(21) of SEC Regulation S-K (§229.601) requires firms to list each significant subsidiary and its state or country of incorporation. These data appear in Exhibit 21 as part of firms' Form 10-Ks filed with the SEC. Some firms have materially reduced the subsidiaries disclosed within Exhibit 21 in recent years, even though many of the eliminated subsidiaries continue to be publicly registered and active (e.g., Gramlich and Whiteaker-Poe, 2013; Herbert et al., 2015).

add noise but not bias to our analyses. Second, GJF performs this matching procedure using parent-subsidiary ownership as of 2014. This means it is possible the parent company does not own the subsidiary company when the subsidy is awarded. GJF justifies this practice by noting that subsidies often provide benefits for multiple years, so a parent company ultimately benefits from subsidies a target company receives prior to being acquired. To alleviate this issue, we manually review each parent-subsidiary-year observation from 2000 through 2014 with a parent that could be matched to Compustat, and removed approximately ten percent of observations when the ultimate parent company did not own the subsidiary company in the year the subsidy was granted.

Data on state political campaign contributions

We identify state-level political campaign contributions by corporations and corporate-sponsored PACs using data from the National Institute on Money in State Politics (NIMSP).[19] NIMSP is a non-partisan organization that collects and organizes data from campaign finance reports required to be submitted to disclosure agencies in all 50 states by all candidates for state-wide legislative office.[20] The National Conference of State Legislatures (NCSL) notes that while reporting requirements vary by state, all 50 states mandate some form of campaign contribution disclosure, and most states require annual reporting.[21] We link the NIMSP campaign

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[19] We believe political spending that can be linked *directly* between a corporation and a state political candidate provides stronger identification than prior studies. We acknowledge that corporations have multiple methods for being politically connected (e.g., hiring lobbyists, participating in grassroots organizations and media campaigns, publicly endorse candidates, etc.). Corporate PACs can also use intermediaries like political party associations (e.g., the Republican Governors' Association) to mask their financial contributions to individual political candidates (Davis, 2016). However, Wellman (2017) notes that establishing a direct relationship with the ultimate political decision-maker is likely a first-order corporate political strategy.

[20] http://www.followthemoney.org/about-us/mission-and-history/ (last accessed November 23, 2016). NIMPS also collects campaign contributions made to state Supreme Court candidates, state-level political party committees, and ballot measure committees.

[21] Both the NCSL (http://www.ncsl.org/research/elections-and-campaigns/disclosure-and-reporting-requirements.aspx) and the Campaign Finance Institute (http://www.cfinst.org/law/stateLinks.aspx) provide details on each state's reporting and disclosure requirements (last accessed March 3, 2017).

contributions database to the GJF database by company name (again using a name-based fuzzy matching algorithm that incorporates both parent company and subsidiary company names). We align political contribution year with Compustat fiscal year (*fyear*).[22]

Data on state-level future economic growth

The U.S. Census Bureau's County Business Patterns (CBP) data provides information on all businesses with paid employees within the U.S. The CBP data includes on the number of establishments, total employment, and annual payroll within each state by year and industry. CBP data are organized the state-year-industry level (with industries defined using six-digit NAICS values), so our future economic growth tests are conducted using state-year-industry as the unit of analysis.[23]

Research design

While the GJF data provides information on corporate subsidies awarded by U.S. federal, state, and local governments, we analyze only corporate subsidies awarded by state governments for the following reasons. First, the U.S. federal government has not granted preferential tax treatment to individual companies since 1986 (Chen et al., 2015). Second, GJF notes that U.S. local governments are particularly opaque regarding subsidy-related disclosures; over half of the nation's 50 largest cities and counties fail to disclose the names of companies receiving locally provided subsidies.[24] Third, we are unaware of U.S. local governments being subject to

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[22] We thank Greg Schneider at NIMSP for help with this matching procedure.

[23] CBP data undergo automated and analytical edits that remove anomalies and validate geographic coding, addresses, and industry classification. CBP excludes (and therefore our analyses omit) the following NAICS industries: crop and animal production; rail transportation; National Postal Service; pension, health, welfare, and vacation funds; trusts, estates, and agency accounts; private households; and public administration. In addition, CBP excludes most establishments reporting government employees. Employment is assessed as of the week of March 12th. CBP data can be accessed at https://www.census.gov/programs-surveys/cbp/data/datasets.html

[24] http://www.goodjobsfirst.org/blog/study-most-big-localities-still-fail-disclose-tax-break-recipients (last accessed September 10, 2017).

systematic campaign finance reporting requirements, or an organization that collects campaign

contribution information across all U.S. local governments.

We examine the relation between subsidy awards and political contributions by

estimating the following equation:

$$StateSubsidy_{jtk} = \alpha + \beta_1 PoliticalContrib_{jtk} + \beta_2 StateImportance_{jtk} + FixedEffects + \varepsilon_{jtk} \quad [1]$$

Our unit of analysis is at the company-year-state level, so all subsidies awarded to company j in

year t by state k are aggregated into one observation. Companies that contribute (do not contribute)

financially to a state k politician in a given time period comprise our treatment (control) group. We

estimate Equation 1 using an OLS regression.[25]

We measure *StateSubsidy* using two variables. *Subsidy* is an indicator set equal to one if

state k awards a subsidy to company j in year t, and zero otherwise. *SubsidyAmt* is the natural log

of one plus the dollar amount of subsidy state k awards to company j in year t. *PoliticalContrib* is

one of three variables that capture contributions to political candidates in state k by company j

(or its corporate-sponsored PAC) in years t-4 through t. Because state election cycles are every

two or four years (depending on the state and office), a five-year measurement window ensures

each *PoliticalContrib* variable captures corporate contributions related to the most recent

election cycle (Cooper et al., 2010). *Contrib* is an indicator set equal to one if company j

contributes to a state k political candidate in years t-4 through t, and zero otherwise. *ContribAmt*

is the natural log of one plus the dollar amount that company j contributes to state k political

candidates in years t-4 through t. Some argue larger dollar contributions are as effective as

smaller contributions. Politicians' time is limited, so once a corporation gains access to a

politician through any amount of contribution and provides persuasive information, the marginal

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[25] We employ an extensive set of industry fixed effects, and Greene (2004) illustrates that estimating a logit or probit model with an extensive set of categorical variables (e.g., fixed effects) can lead to biased inferences.

return to an additional dollar of political spending is close to zero (de Figueiredo & Silverman, 2006). Accordingly, we follow Cooper et al. (2010) and consider the number of political candidates a company contributes to. *ContribCandCnt* is the natural log of one plus the number of state k political candidates that company j contributes to in years t-4 through t.

The variable *StateImportance* addresses the possibility that a company is more likely to contribute to a political candidate and more likely to seek a subsidy in a state that is economically important to the company. Following Garcia and Norli (2012), we identify state k's economic importance to company j in year t by counting the number of times state k is mentioned in the company's Form 10-K. The more times a state is mentioned, the more economically important a state is to the company. *StateImportance* is measured as the number of years company j indicates that state k is the company's most important state (i.e., mentions of state k are more than 50 percent of all U.S. state mentions in the company's Form 10-K) during years t-4 through t. Variables are defined in detail in Appendix C.

We include fixed effects for each company-year combination (i.e., company times year) and each state-industry-year combination (i.e., state times Fama-French 12 industry times year). Including company-year fixed effects allow us to compare the relation between political contributions and subsidies for a given company-year across states. Including state-industry-year fixed effects eliminates the potential concern that some industries are more politically active in a given year and a state awards subsidies to companies in a politically active industry for reasons unrelated to political activity (e.g., the state is interested in stimulating a specific industry in a given year). Thus, our coefficients reflect how variation in each independent variable is associated with state-awarded subsidies for Company A relative to Company B within a particular state, industry, and year. These two sets of fixed effects control for all time-varying and time-invariant

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company, state, and industry characteristics with the potential to affect the contribution-subsidy relation, making it unlikely that our inferences are affected by correlated omitted variables. We cluster standard errors by company and state to allow the error term to be correlated both within a company and across all company within a state.[26]

There are several reasons why we may fail to find a positive association between state subsidies and corporate political connections. First, politicians may want to avoid negative publicity related to perceived cronyism, and take steps so subsidies are not awarded to companies they are connected with. Second, politicians may place greater value on the potentially positive press associated with attracting new and retaining existing companies in their district, irrespective of the corporation's political connections. To illustrate, when Wisconsin attracted Taiwanese-based Foxconn to the state with a $3 billion subsidy package in 2017, political pundits referred to the deal as "the pinnacle of Walker's time as governor" (AP, 2017). Whether political connections are systematically associated with a corporation receiving a state-awarded subsidy is an empirical question.

Our second research question examines the relation between a state's subsidy awards and its future economic growth, and whether politically connected subsidy-receiving companies are more or less effective in contributing to this economic growth. We test this research question by estimating the following equation:

$$EconGrowth_{kit+n} = \alpha + \beta_1 SubsidyCnt\_State_{kit} + \beta_2 ContribCandCnt\_State_{kit}$$
$$+ \beta_3 SubsidyCnt\_State_{kit} * ContribCandCnt\_State_{kit} + FixedEffects + \varepsilon_{kit+n} \quad [2]$$

The dependent variable *EconGrowth* is measured as the one, two, and three-year growth in employees (*ΔEmployees*), payroll (*ΔPayroll*), and number of business establishments

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[26] To consider alternative covariance structures of the regression error terms, we confirm that our inferences are insensitive to clustering standard errors by firm or by state (untabualted).

(*ΔEstablishment*) in industry *i* within state *k*. We regress each *EconGrowth* variable on

SubsidyCnt_State, *ContribCandCnt_State*, and the interaction of these two variables.

SubsidyCnt_State is defined as the number of companies receiving a subsidy from state *k* in

industry *i* and year *t*. *ContribCandCnt_State* is defined as the number of companies in industry *i*

that make a financial contribution to a state *k* political candidate in year *t*. The *SubsidyCnt_State*

coefficient captures the relation between subsidies within industry *i* awarded by state *k* on the

state's future intra-industry economic growth, and the interaction coefficient captures whether

political connections mitigate or enhance the relation. We include industry-year and state-year

fixed effects to control for all time-varying and time-invariant factors at the state and industry

level that could affect employee, payroll, and establishment growth. We estimate Equation 2

using OLS, and standard errors are clustered by industry and state to allow the error term to be

correlated both within an industry and all industries within a state.

RESULTS

Sample selection

Our sample is comprised of publicly traded companies that receive a subsidy from at least

one state during our 15-year sample period (2000 through 2014), yielding a final sample of 545,345

company-year-state observations. Requiring that a company receive at least one subsidy from one

state is useful on several dimensions. First, it mitigates concern that we compare companies

selected to receive a subsidy to companies unlikely to be selected by any state to receive a subsidy

due to factors that are unobservable or difficult to measure. Second, it ensures that the same parent-

subsidiary matches created by GJF are used to identify state-level corporate political contributions

by NIMSP. This second reason ensures that we similarly identified parent-subsidiary relations

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when creating both our dependent variable (state-awarded subsidies) and our independent variable of interest (corporate contributions to state political candidates).

Descriptive statistics

Table 1 shows that 1.6 percent of the sample receives a subsidy in year t (*Subsidy*=1). For these 8,676 observations, the average dollar value of subsidy awarded is $2.6 million. However, the median dollar value of subsidy awarded is much smaller at $183,036, with an interquartile range of $38,091 to $950,299 (untabulated). This skewness contributes to our decision to define *SubsidyAmt* using a natural log transformation More than three-fourths of the subsidies are tax-related (i.e., income, sales, property, or payroll tax credits or abatements). The remaining one-fourth are generally related to various types of resource transfers (e.g., training program reimbursement, grants, low-cost loans to fund capital expenditures) (untabulated). Some subsidies have both tax and resource transfer elements. Because our tests are conducted at the company-year-state level, each observation could include more than one type of subsidy.

Table 1 also shows that 8.1 percent of the sample makes a contribution to a state politician in years t-4 through t (*Contrib*=1). For these 44,060 observations, the average (median) dollar value of corporate contributions to state candidates in years t-4 through t is $16,015 ($7,100), with an interquartile range of $1,550 to $29,200. To put these dollar values in context, winning candidates in state Senate elections in 2010 raised an average of $188,105 (Osorio, 2012). Within the *Contrib*=1 sample, the average (median) number of state politicians receiving corporate contributions in years t-4 through t is 21.3 (9), with an interquartile range of 2 to 41 (untabulated). We measure both *ContribAmt* and *ContribCandCnt* using natural logs so our dependent continuous variable and independent continuous variables of interest are similarly transformed. Both subsidy variables are positively correlated with the three contribution

variables at the one percent level (untabulated). The remaining variables' descriptive statistics are discussed as we present our multivariate results.

Figure 1 presents subsidy and political contribution frequencies by year (Panel A), by state (Panels B and C), and by industry (Panel D). Panel A shows that subsidy frequency has increased over time, from a low of 59 company-state observations in 2001 to a high of 1,160 company-state observations in 2011. Contribution frequency has also increased over time, from a low of 1,806 company-state observations in 2001 to a high of 3,778 company-state observations in 2014.

Panel B shows there is significant variation in subsidies awarded by state. All states excluding Hawaii and Wyoming award at least one subsidy to a publicly traded company during our 15-year sample period. Five states – North Carolina, Maine, Washington, Louisiana, and Ohio – account for more than a third of the *Subsidy*=1 observations. These states differ significantly in terms of population, geographic location, industry concentration, political leanings, and corporate tax policies, illustrating that corporate subsidies are an economic lever used by many "types" of states.

Panel C shows that political candidates in all states but Wyoming receive direct or indirect financial contributions from a publicly traded company that receives a subsidy from at least one state during our 15-year time period. The *Contrib* indicator variable equals one most often for California-based politicians, followed by New York, Illinois, and Florida. These states have large populations and GDPs. However, we also note that New Jersey and New Mexico report a similar frequency of *Contrib*=1 observations (2.2 and 2.3 percent, respectively) but have very different populations and GDPs. Thus, contribution frequency does not simply capture state size.

Finally, Panel D shows that companies across all Fama-French 12 industries receive state subsidies and make political contributions to state candidates. Observations with *Contrib*=1 are most concentrated in the financial services industry, followed by companies in "other" industries and then the healthcare industry. Observations with *Subsidy*=1 are most concentrated in the manufacturing industry, followed by the business equipment industry, and then the wholesale and retail industry. These panels highlight the importance of including state-industry-year fixed effects to control for all time-varying and time-invariant state and industry characteristics with the potential to affect the subsidy-contribution relation.

Relation between state political connections and state-awarded subsidies

Our first set of multivariate analyses are presented in Table 2. Panel A presents results using our full sample of 545,345 company-year-state observations. We find that when a company contributes to a state political candidate, the company is four percent more likely to receive a subsidy from that state (Column 1). Larger contribution amounts (Column 2) and contributing to a greater number of candidates (Column 3) also 21ncrease the probability of receiving a subsidy. Columns 4 through 6 provide evidence that the presence of a political contribution, the dollar value of contributions, and the number of candidates supported are all associated with receiving a higher subsidy value. The positive and significant *StateImportance* coefficient indicates companies are more likely to be awarded a subsidy in a state that is economically important to the company.[27]

These analyses measure political contributions over a five year period (*t*-4 through *t*) because state election cycles are every two or four years, depending on the state and office. In

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[27] We caution readers from interpreting coefficient magnitudes as a "return on political investment," as there are other ways companies can be politically active at the state level. We use corporate political contributions as a proxy for political connections because these other ways are generally not systematically observable for all companies across all states in all years.

supplemental analyses we measure contributions by year during the five year period. We find

highly significant coefficients for each of the five annual contribution variables in all six

columns (untabulated). We test for a "recency" effect to determine if contributions closer in time

to subsidy awards have a greater impact on subsidy likelihood or amount. F-tests indicate that

coefficient magnitudes are similar for more recent contributions and older contributions,

consistent with a long-term political connections strategy (e.g., Snyder, 1992; Brown et al.

2015). Inferences are also robust to including future political contributions measured from $t+1$

through $t+4$ (untabulated).

It is possible that states in which a company does not have operations are inducing a

positive relation between subsidies and contributions (due to our dependent and independent

variables being equal to zero in these states in these years). We examine three subsamples to

reduce the likelihood this alternative explanation drives our results. We first require a company

to have a presence within a state (defined as a company mentioning a state at least once in its

prior year Form 10-K). This requirement reduces the sample to 123,928 observations. Panel B

shows that we continue to find a positive relation between state political contributions and state-

awarded subsidies in all regression specifications within this subsample. We next require a

company to have a material presence within a state (defined as state k comprising ten percent of

the state mentions in a company's prior year Form 10-K). This requirement reduces the sample

to 27,131 observations. Panel C shows that we continue to find a positive relation between state

political contributions and state-awarded subsidies in all columns. Importantly, magnitude

estimates are insensitive to state presence requirements, suggesting the positive relation between

a company's state presence and the probability of receiving a subsidy.

Finally, we limit our sample to state subsidies awarded in the current year (i.e., the 8,676 observations with *Subsidy*=1). Because subsidy characteristics are only relevant when a subsidy is awarded, we are able to incorporate information about two subsidy characteristics collected by GJF (where available) into this regression specification: the number of jobs a company commits to generate and the amount of capital investment a company commits to make in the state awarding the subsidy. We define *CommitJobs* (*CommitCapital*) as the natural log of one plus the number of jobs (capital investment dollars) a company commits to in exchange for a state subsidy. If the subsidy disclosure fails to include information about specific jobs and capital requirements, we set *CommitJobs* (*CommitCapital*) equal to zero and the indicator variable *CommitJobsMissing* (*CommitCapitalMissing*) equal to one. Due to limited variation within each company-year in this sub-sample, we replace the company-year fixed effects with three time-varying company characteristics: total assets (*Size)*, leverage (*Leverage*), and cash effective tax rate (*CashETR*). These company characteristics are chosen because prior research finds they are associated with tax planning and the majority of subsidies relate to tax abatements and credits.

Panel D shows that the three contribution variable coefficients continue to be positive and significant – larger subsidy values are awarded when a company makes political contributions, makes larger political contributions, and contributes to a greater number of candidates. We again find larger subsidy awards for larger companies, and in states that are economically important to the companies receiving the award. The *CommitJobs* and *CommitCapital* coefficients are positive and significant in all three columns, consistent with states awarding larger subsidies when companies are willing to commit to greater human and capital investment. Importantly, these results show that political contributions are incremental to jobs and capital commitment. Over half (three-fourths) of the *Subsidy*=1 observations have missing jobs (capital investment)

commitment information. Limiting the sample to the 1,799 observations with

CommitJobsMissing=0 and *CommitCapitalMissing*=0 continues to indicate that larger subsidy

amounts are positively associated with larger political contributions, jobs commitments, and

capital commitments (untabulated).

Relation between state political connections and state-awarded subsidies: within-state time-series variation

Our next set of analyses consider time-series variation in the relation between company

j's political contributions and subsidies *within* a given state. To exploit this variation, we replace

the company-year fixed effects with company-state fixed effects to control for any stationary

attributes of a company's relation with state officials and include *Size, Leverage,* and *CashETR*

to capture time-varying company characteristics. Panel A, Table 3 shows that the presence of

political contributions, the amount contributed, and the number of candidates supported are all

associated with a higher likelihood of a company being awarded a state subsidy (Columns 1

through 3) and a higher subsidy amount (Columns 4 through 6). In Panel B we repeat these

analyses after requiring a company to have a presence within a state, and continue to find results

consistent with corporate political contributions being positively associated with state-awarded

subsidies.

Considering type of political contribution

We next consider how cross-sectional variation in the type of political contribution

affects the likelihood of being awarded a subsidy and the dollar value of the awarded subsidy.

We first examine if a company that contributes to only a few candidates has the same likelihood

of receiving a subsidy or receives a subsidy of similar size as a company that contributes to many

more candidates. We divide observations with *ContribCandCnt*=1 into four mutually exclusive

groups. *ContribCand1* is an indicator variable set equal to one if a company makes political

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contributions to only one candidate in a state in years *t*-4 through *t*, and zero otherwise. Analogously, *ContribCand2-5* (*ContribCand6-10*) [*ContribCand11*] is an indicator variable set equal to one if a company supports two to five (six to ten) [11 or more] state candidates, and zero otherwise. All four variables are set equal to zero when *Contrib*=1. This analysis tells us whether there is an incremental advantage (or disadvantage) of making contributions beyond a certain number of candidates.

Panel A, Table 4 reveals that supporting any number of candidates – even only one – increases the likelihood of being awarded a subsidy and the subsidy value. Within each column, coefficient values monotonically increase as the number of candidates supported increases. F-statistics confirm that coefficient values between adjacent groups (i.e., *ContribCand1* versus *ContribCand2-5; ContribCand2-5* versus *ContribCand6-10;* and *ContribCand6-10* versus *ContribCand11*) are statistically different. These findings indicate that while contributing to only one political candidate is beneficial, showering many candidates with contributions is most advantageous.

We next consider the impact of candidates' political affiliation on subsidy outcomes. Panel B, Table 4 shows that supporting only Democratic Party candidates *(ContribDemOnly*=1*)* or only Republican Party candidates *(ContribRepubOnly*=1*)* is positively associated with subsidy outcomes, and F-tests indicate that the *ContribDemOnly* and *ContribRepubOnly* coefficients are statistically indistinguishable from one another in both columns. Thus, contributing to candidates from only one political party yields similar benefits, regardless of which political party is supported. This finding suggests that both major political parties engage in similar amounts of quid-pro-quo cronyism regarding corporate subsidy awards. Contributing to candidates from both political parties *(ContribDem&Repub*=1*)* is also positively associated with subsidy

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outcomes. F-tests reveal that the *ContribDem&Repub* coefficient is statistically larger than the *ContribDemOnly* or *ContribRepubOnly* coefficient in each column, indicating that showering candidates from both political parties with financial contributions is most advantageous.

Our final analyses on the subsidy-contribution relation consider the impact of candidates' branch of government on subsidy outcomes. Panel C, Table 4 shows that contributing to only gubernatorial candidates (*ContribGubOnly*=1) or only legislative candidates (*ContribLegOnly*=1) is positively associated with subsidy outcomes. F-tests indicate that the *ContribGubOnly* and *ContribLegOnly* coefficients are statistically indistinguishable from one another in both columns. This finding suggests that both branches of government engage in similar amounts of quid-pro-quo cronyism in the subsidy award process. F-tests indicate that the *ContribGub&Leg* coefficient is statistically larger than the *ContribGubOnly* or *ContribLegOnly* coefficient in each column, indicating that contributing to candidates from both branches of government yields the greatest payoff.

Considering whether political connections affect subsidy outcomes

Our last set of analyses examine whether the relation between subsidies and future intra-industry economic growth is affected by the quid pro quo nature of the subsidy award process. Table 5 presents the results from estimating Equation 2. We find that the number of subsidies a state grants within an industry (*SubsidyCnt_State*) is positively associated with intra-industry future growth in employees (Columns 1 through 3) and payroll (Columns 5 and 6), but has no relation to future growth in establishments. These findings are consistent with subsidies facilitating intra-industry job creation. However, when the *SubsidyCnt_State* coefficient is positive, the coefficient on the interaction of *SubsidyCnt_State* and *ContribCandCnt_State* is negative and significant. Inferences are unaffected by measuring subsidies as the natural log of

one plus the sum of all subsidies awarded within a state-year (untabulated). These findings indicate that corporate subsidies have a smaller impact on future intra-state and -industry economic growth when companies are more politically connected. These findings provide some evidence that taxpayers are harmed by the quid pro quo nature of state subsidy awards.[28]

CONCLUSION

This paper examines whether corporate contributions to politicians are associated with a corporation receiving a government subsidy, and how the relation affects taxpayers. We test our research question in the U.S. state setting. State-level analyses provide rich cross-sectional and time-series variation in both the extent of corporate political contributions permitted by state finance law and the type/amount of governmental subsidies awarded. We find robust evidence that corporate political contributions increase both the likelihood a company is awarded a state subsidy and the dollar value of subsidy awarded. Corporations contributing to both Republican and Democratic Party state candidates, and to both gubernatorial and state legislative candidates, reap the greatest benefits. Our research design includes fixed effects for each company-year combination (i.e., company times year) and each state-industry-year combination (i.e., state times industry times year). These fixed effects address all time-varying and time-invariant company, state, and industry characteristics with the potential to affect the contribution-subsidy relation, and reduce the likelihood that inferences are due to a correlated omitted variable.

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[28] We also consider whether political connections affect the relation between subsidies and future inter-industry economic growth. We identify inter-industry trade flow between suppliers and customers from the Bureau of Economic Analysis Make and Use tables (Ahern and Harford, 2013) and use supplier-customer weights from Aobdia et al. (2014). These tests fail to identify a relation between subsidies and future inter-industry economic growth (untabulated). An insignificant relation could be due to customers and suppliers being in separate states and/or state inter-industry trade flow differing from national inter-industry trade flow.

Additional tests provide some evidence that subsidies are associated with future economic growth, but less so when subsidies are awarded to politically connected firms.

Our findings are consistent with concerns that cronyism and pay-to-play policies result in taxpayer funds being disproportionately transferred to politically connected companies, and that this practice is detrimental to taxpayers. We expect our findings to be of interest to citizens whose tax dollars fund cronyism that provides state politicians with financial contributions. We also expect our findings to inform governmental and public company financial reporting standards setters as they consider the extent to which government-related subsidy awards are disclosed by state governments and companies.

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Corporate Contributions to State Political Candidates

Direct Contributions			Indirect Contributions (via PACs)	
Unlimited (6)	**Limited (23)**	**Prohibited (21)**	**Unlimited (14)**	**Limited (36)**
Alabama	Arkansas	Alaska	Alabama	Alaska
Missouri	California	Arizona	Indiana	Arizona
Nebraska	Delaware	Colorado	Iowa	Arkansas
Oregon	Florida	Connecticut	Mississippi	California
Utah	Georgia	Iowa	Missouri	Colorado
Virginia	Hawaii	Kentucky	Nebraska	Connecticut
	Idaho	Massachusetts	New Hampshire	Delaware
	Illinois	Michigan	North Dakota	Florida
	Indiana	Minnesota	Oregon	Georgia
	Kansas	Montana	Pennsylvania	Hawaii
	Louisiana	North Carolina	South Dakota	Idaho
	Maine	North Dakota	Texas	Illinois
	Maryland	Ohio	Utah	Kansas
	Mississippi	Oklahoma	Virginia	Kentucky
	Nevada	Pennsylvania		Louisiana
	New Hampshire	Rhode Island		Maine
	New Jersey	South Dakota		Maryland
	New Mexico	Texas		Massachusetts
	New York	West Virginia		Michigan
	South Carolina	Wisconsin		Minnesota
	Tennessee	Wyoming		Montana
	Vermont			Nevada
	Washington[29]			New Jersey
				New Mexico
				New York
				North Carolina
				Ohio
				Oklahoma
				Rhode Island
				South Carolina
				Tennessee
				Vermont
				Washington
				West Virginia
				Wisconsin
				Wyoming

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[29] Washington prohibits contributions from out-of-state corporations.

APPENDIX B
State Subsidy Examples

Part I: Examples of subsidies valued near the sample median of $183,036

1. In 2005, California awarded a $183,531 subsidy to Autodesk through the state's "Employment Training Panel" program. The subsidy related to employee training reimbursements.
2. In 2009, Louisiana awarded a $183,286 subsidy to Best Buy through the state's "Enterprise Zone" program. The subsidy incentivized the company to open a new electronics retail store in Hammond, LA.
3. In 2010, Washington awarded a $183,352 subsidy to ELDEC, a Crane Co. subsidiary, through the state's "High Technology Business & Occupation Tax Credit" program. The subsidy incentivizes research and development activities in Washington in the fields of advanced computing, advance materials, biotechnology, electronic device technology, and environmental technology.
4. In 2012, Kansas awarded Caterpillar an annual subsidy valued at $182,596 through the state's "Promoting Employment Across Kansas (PEAK)" program. This subsidy incentivizes companies relocating or retaining jobs in Kansas to keep 95 percent of payroll withholding taxes generated by the new or retained employees.
5. In 2014, Pennsylvania awarded a $183,052 subsidy to Comcast through the state's "Research & Development Tax Credit" program. The subsidy incentivizes research and development activities in Pennsylvania.

Part II: Examples of larger subsidies. Holding state constant (Ohio) and varying the presence of corporate political connections.

1. In 2008, Ohio awarded NetJets (a subsidiary of Berkshire Hathaway) a subsidy package valued at more than $37 million. NetJets sells fractional ownership interests in private business jets. The company had a presence in Columbus, OH and wanted to expand operations by building a new aviation campus for another Berkshire subsidiary, FlightSafety International. FlightSafety is the world's largest provider of aviation training in the US and Canada. The state of Ohio provided NetJets with a $37.4 million economic expansion incentive package that included workforce development, job credits, tax abatements, and other forms of direct assistance. The city of Columbus and Franklin County contributed an additional $22 million, and the Columbus Regional Airport Authority contributed another $8.2 million. In exchange for this incentive package, NetJets committed to constructing a $200 million aviation campus and generating 810 new jobs. Upon completion, the new aviation campus is expected to house the largest concentration of flight simulators in the US. In 2008, Berkshire Hathaway donated to two Ohio House of Representatives and two Ohio Senate candidates ($Contrib_{jtk}$=1).

2. In 2011, Ohio awarded American Greetings Card (AGC) a subsidy package valued at more than $146 million. AGC is a self-described "creator and manufacturer of innovative social expression products." It was a Fortune 1000 firm with its headquarters in Brooklyn, OH

(within the Cleveland metropolitan area) since the 1960s. On Jan 6, 2010 AGC announced interest in moving its headquarters, and was considering locations both within and outside of Ohio. Cities and states began competing for the new headquarter location, and the Ohio legislature and Ohio Department of Development began discussing an incentive package to keep AGC in Ohio. Ohio House Bill 58[30] offered AGC a variety of economic incentives, including a multi-year refundable jobs retention tax credit, a low-interest loan, and grants earmarked for construction costs and infrastructure improvements. In exchange for this incentive package, AGC committed to keeping the equivalent of 1,750 full-time jobs at its Ohio headquarters. AGC ended up moving its headquarters 15 miles down the road to Westlake, OH (also within the Cleveland metropolitan area). AGC did not make political contributions to any Ohio state political candidates prior to the incentive package being offered and accepted ($Contrib_{jtk}$=0).

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[30] Companies eligible for the credit must have at least 1,000 employees, agree to make $25 million in capital improvements over three consecutive years and received a written offer in 2010 from another state.

APPENDIX C
Variable definitions

Variable	Definition
CashETR	Tax paid (*txpd*) ÷ (pre-tax book income (*pi*) less special items (*spi*)). Requires (*pi - spi*) > 0, and truncated at a lower (upper) bound of zero (one). [Source: Compustat]
CommitCapital	Natural log of one plus the amount of capital investment company *j* commits to make in state *k* when awarded a subsidy in state *k*. Set to zero when company *j* does not make an identifiable capital commitment to state *k* when receiving a subsidy from state *k*. [Source: GJF]
CommitCapitalMissing	Indicator set to one when company *j* does not make an identifiable capital commitment to state *k* when receiving a subsidy from state *k*, and to zero otherwise. [Source: GJF]
CommitJobs	Natural log of one plus the number of jobs company *j* commits to generate in state *k* when awarded a subsidy in state *k*. Set to zero when company *j* does not make an identifiable jobs commitment to state *k* when receiving a subsidy from state *k*. [Source: GJF]
CommitJobsMissing	Indicator set to one when company *j* does not make an identifiable capital commitment to state *k* when receiving a subsidy from state *k*, and set to zero otherwise. [Source: GJF]
Contrib	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes to a state *k* political candidate in years *t*-4 through *t*, and zero otherwise [Source: NIMSP]
ContribAmt	Natural log of one plus the dollar amount that company *j* (or its corporate-sponsored PAC) contributes to state *k* political candidates in years *t*-4 through *t*. [Source: NIMSP]
ContribCandCnt	Natural log of one plus the number of state *k* political candidates that company *j* (or its corporate-sponsored PAC) contributes to in years *t*-4 through *t* [Source: NIMSP]
ContribCandCnt_State	Number of companies that make a financial contribution to a state *k* political candidate in years *t*-4 through *t*.
ContribCand1	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes to only one state *k* political candidate in years *t*-4 through *t*, and zero otherwise [Source: NIMSP]
ContribCand2-5	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes to two to five state *k* political candidates in years *t*-4 through *t*, and zero otherwise [Source: NIMSP]
ContribCand6-10	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes to six through ten state *k* political candidates in years *t*-4 through *t*, and zero otherwise [Source: NIMSP]
ContribCand11	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes to eleven or more state *k* political candidates in years *t*-4 through *t*, and zero otherwise [Source: NIMSP]
ContribDemOnly	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes only to state *k* political candidates from the Democratic Party in years *t*-4 through *t*, and zero otherwise [Source: NIMSP]
ContribDem&Repub	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes to state *k* political candidates from the Democratic Party and Republican Party in years *t*-4 through *t*, and zero otherwise [Source: NIMSP]

ContribRepubOnly	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes only to state *k* political candidates from the Republican Party in years *t*-4 through *t*, and zero otherwise [Source: NIMSP]
ContribGubOnly	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes only to state *k* gubernatorial political candidates in years *t*-4 through *t*, and zero otherwise [Source: NIMSP] [Source: NIMSP]
ContribGub&Leg	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes to state *k* gubernatorial and legislature political candidates in years *t*-4 through *t*, and zero otherwise [Source: NIMSP] [Source: NIMSP]
ContribLegOnly	Indicator set equal to one if company *j* (or its corporate-sponsored PAC) contributes only to state *k* legislative political candidates (house or senate) in years *t*-4 through *t*, and zero otherwise [Source: NIMSP] [Source: NIMSP]
EconGrowth	One of three state economic growth variables: *ΔEmployees*, *ΔEstablishments*, or *ΔPayroll* [Source: U.S. Census County Business Patterns]
Leverage	Total long-term debt (*dltt*) ÷ total assets (*at*) [Source: Compustat]
PoliticalContrib	One of three corporate political contributions-related variables: *Contrib*, *ContribAmt*, or *ContribCandCnt* [Source: NIMSP]
Size	Natural log of one plus total assets (*at)* [Source: Compustat]
StateImportance	Number of years company *j* indicates that state *k* is the company's most important state (i.e., mentions of state *k* are more than 50 percent of all U.S. state mentions in the company's Form 10-K (Item 1: Business, Item 2: Properties, Item 6: Consolidated Financial Data, and Item 7: Management Discussion and Analysis)) during years *t*-4 through *t*. [Source: Form 10-Ks from the SEC EDGAR database]
StateSubsidy	One of two state subsidy-related variables: *Subsidy* or *SubsidyAmt* [Source: GJF]
Subsidy	Indicator set equal to one if company *j* receives a subsidy in year *t* from state *k*, and zero otherwise [Source: GJF]
SubsidyAmt	Natural log of one plus the dollar amount of subsidy received by company *j* in year *t* from state *k* [Source: GJF]
SubsidyCnt_State	Number of companies receiving a subsidy from state *k* in year *t*
ΔEmployees	Percentage change in the number of business establishment employees (as of March) in state *k* and industry *j* from year *t* to year $\underline{t}$+*n* [Source: U.S. Census County Business Patterns]
ΔEstablishments	Percentage change in the number of business establishments in state *k* and industry *j* from year *t* to year $\underline{t}$+*n* [Source: U.S. Census County Business Patterns]
ΔPayroll	Percentage change in the annual amount of business establishment payroll in state *k* and industry *j* from year *t* to year $\underline{t}$+*n* [Source: U.S. Census County Business Patterns]

Notes: Variables are listed in alphabetical order and measured in year *t* unless otherwise specified. 'Source: GJF' refers to the Subsidy Tracker 3.0 data compiled by Good Jobs First. 'Source: NIMSP' refers to state-level political contributions data compiled by the National Institute on Money in State Politics.

FIGURE 1
State Subsidy and Political Contributions Frequencies

Panel A: Observations with *Subsidy*=1 or *Contrib*=1, by year
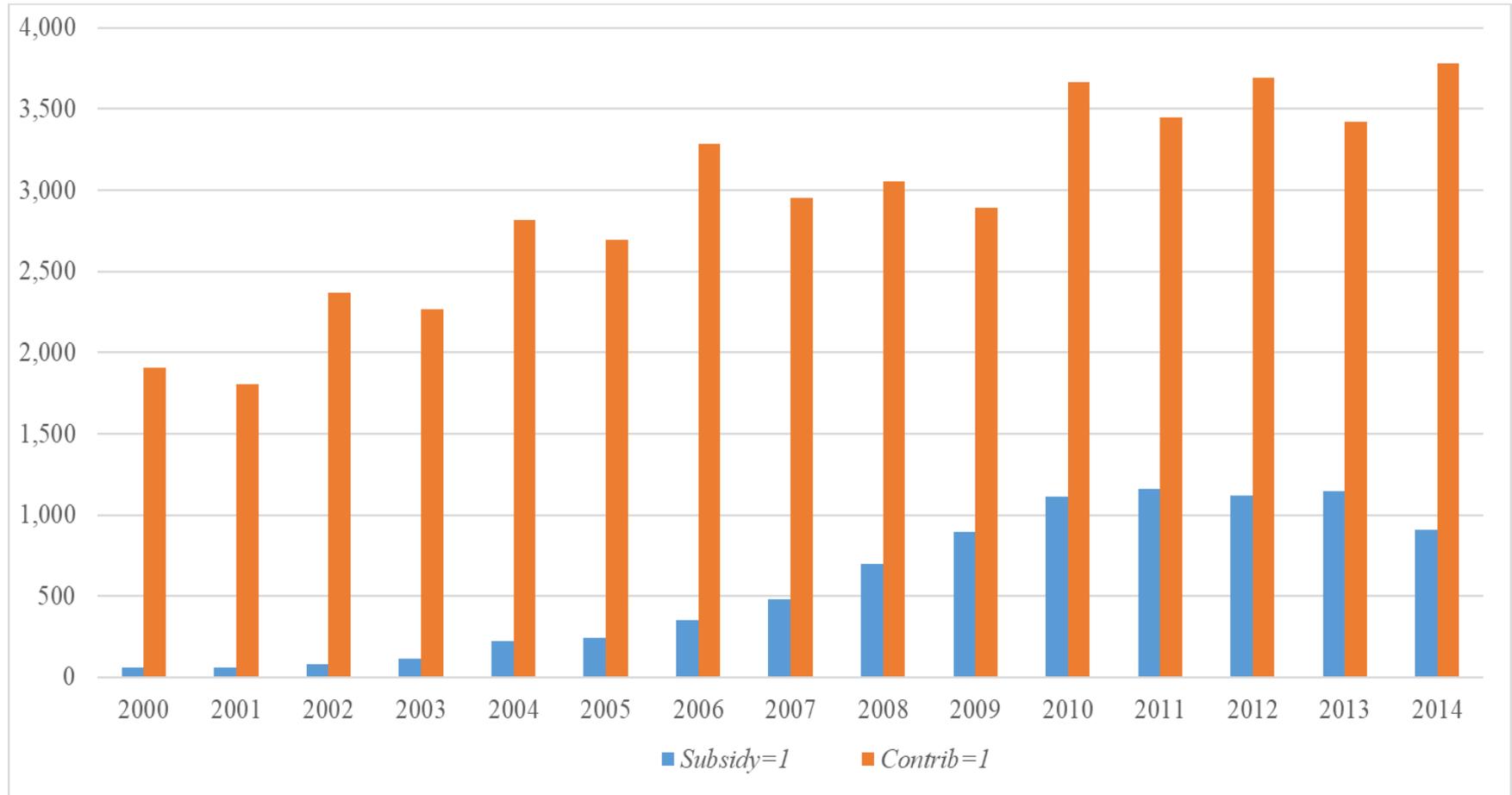
FIGURE 1 (cont.)
State Subsidy and Political Contributions Frequencies

Panel B: Observations with *Subsidy*=1, by state
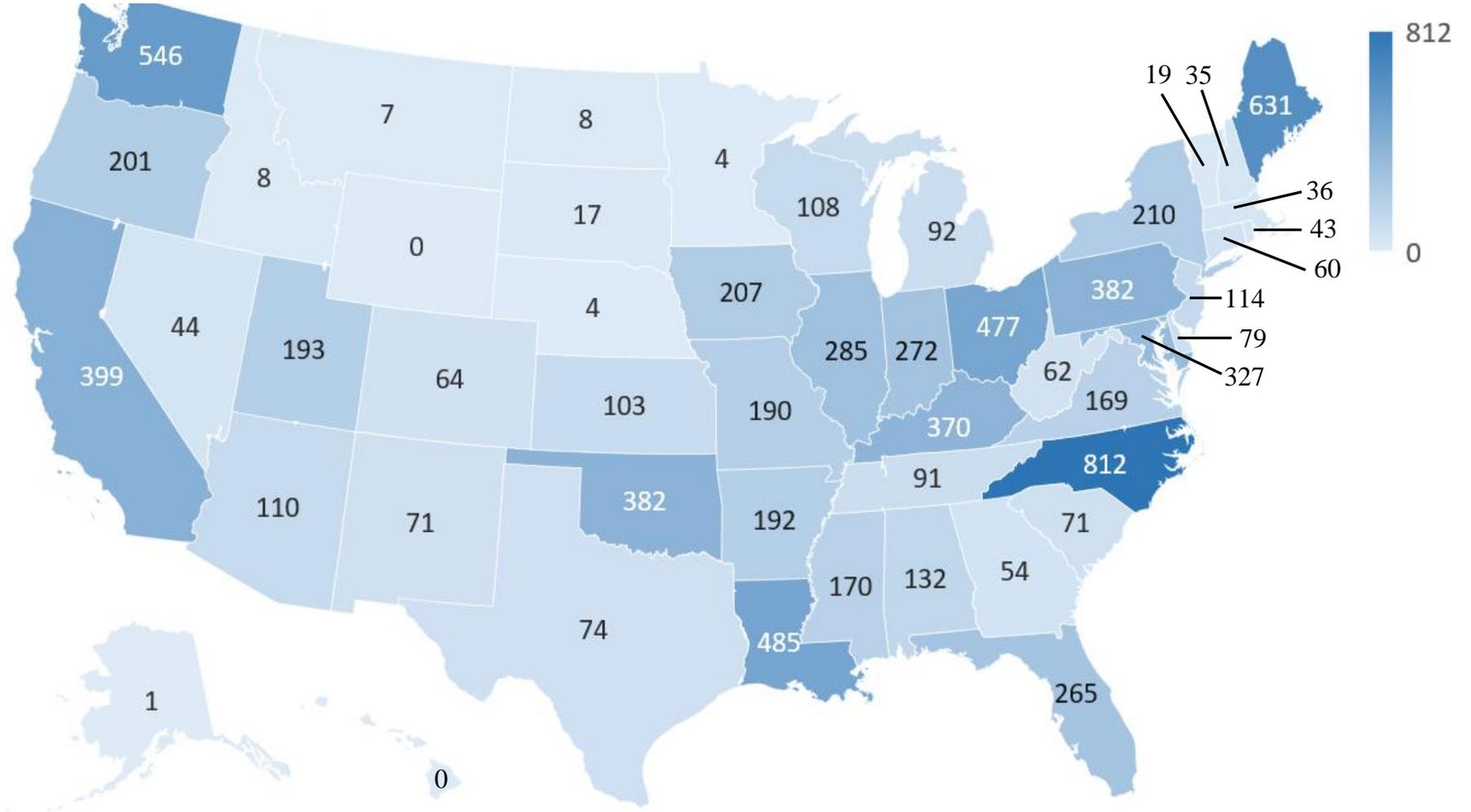
FIGURE 1 (cont.)
State Subsidy and Political Contributions Frequencies

Panel C: Observations with *Contrib*=1, by state

FIGURE 1 (cont.)
State Subsidy and Political Contributions Frequencies

Panel D: Observations with *Subsidy*=1 or *Contrib*=1, by industry

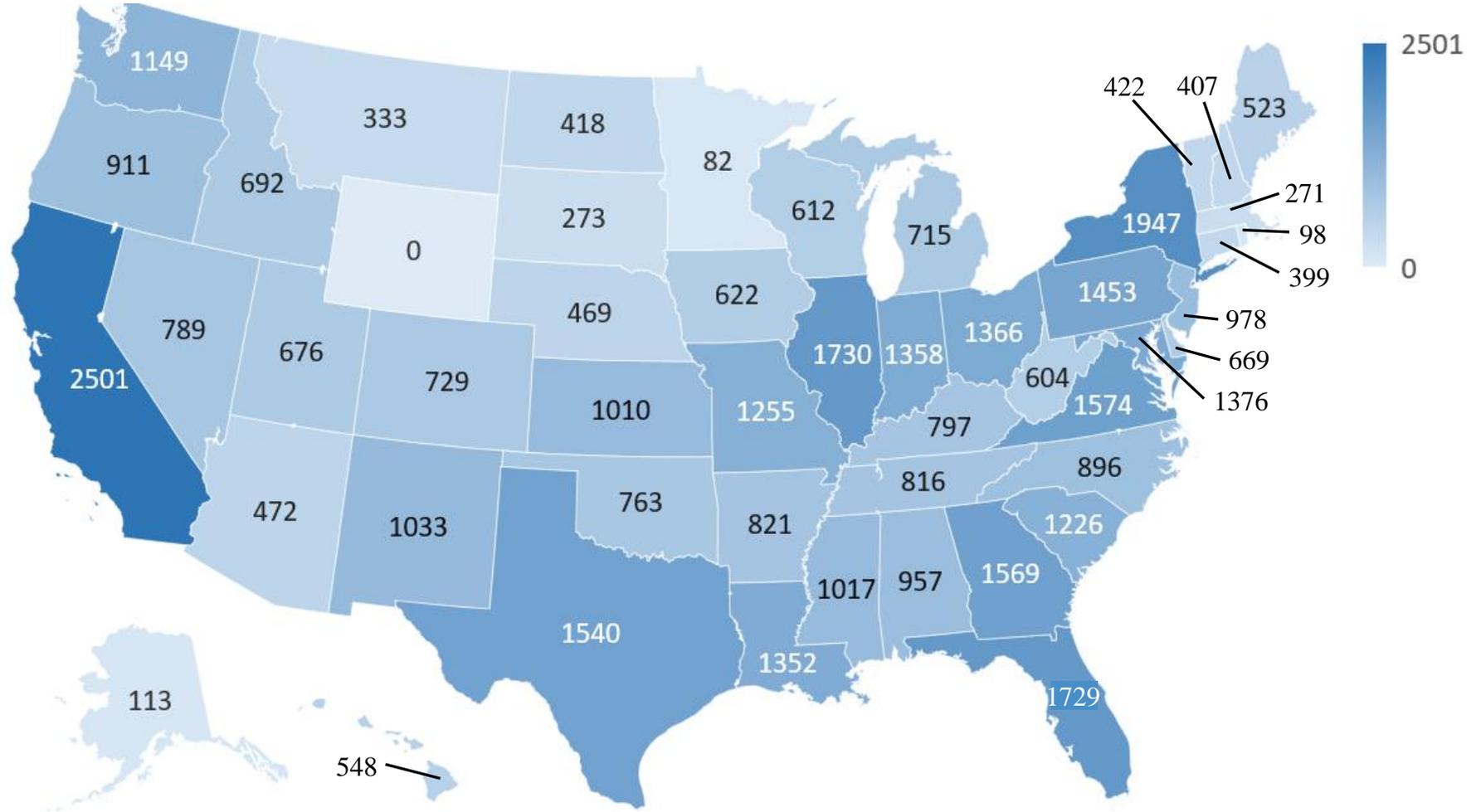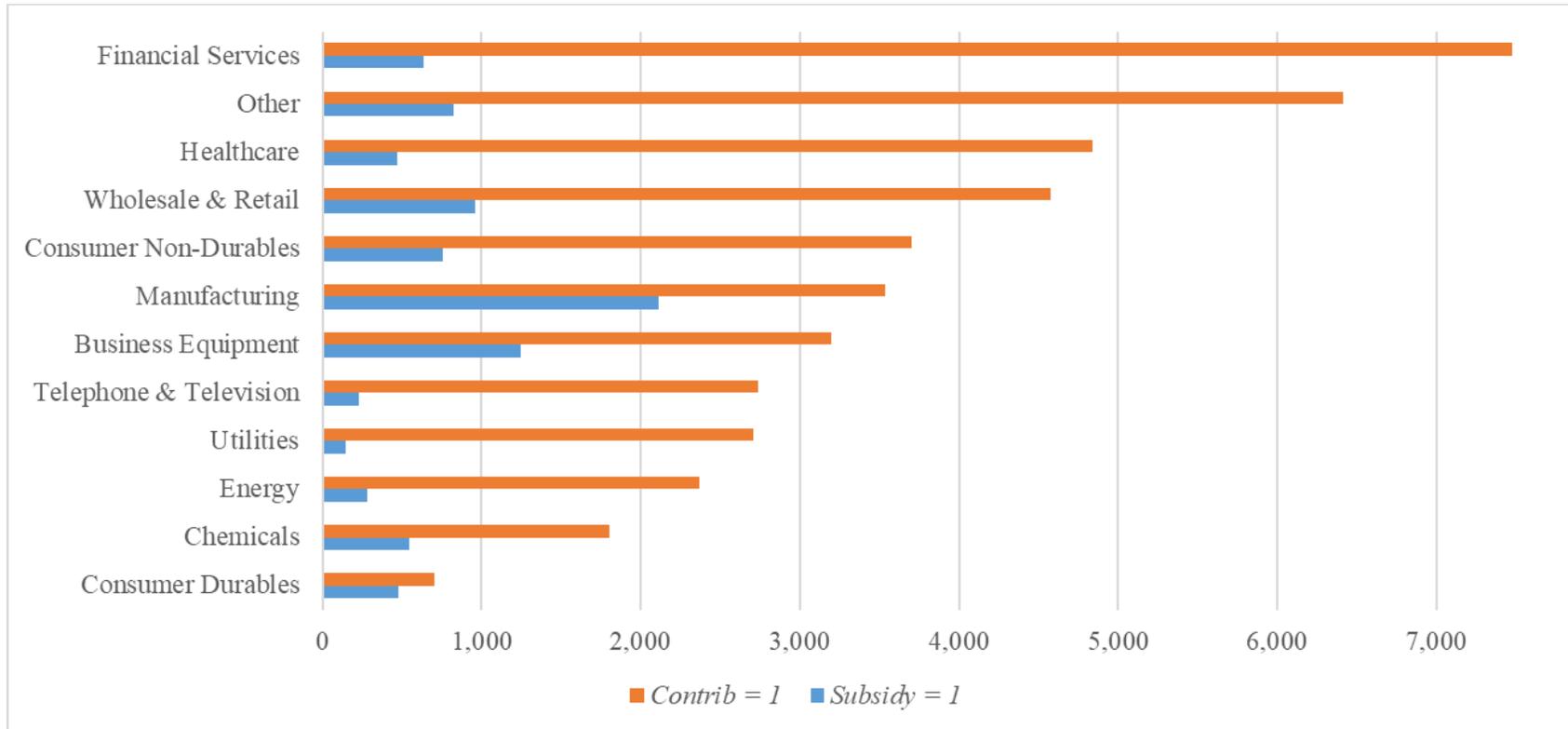Notes: Variables are defined in Appendix C. Our unit of analysis is at the company-year-state level, so subsidies awarded to company *j* in year *t* by state *k* are aggregated. In Panel D, industry is defined using the Fama-French 12 classification.

TABLE 1
TABLE 1
Descriptive Statistics

Variables	N	Mean	Std. Dev.	P50
Subsidy	545,345	0.016	0.125	0.000
SubsidyAmt	545,345	0.193	1.548	0.000
Contrib	545,345	0.081	0.273	0.000
ContribAmt	545,345	0.703	2.423	0.000
ContribCandCnt	545,345	0.191	0.751	0.000
StateImportance	545,345	0.029	0.316	0.000
Size	545,345	8.541	1.688	8.337
Leverage	545,345	0.203	0.162	0.182
CashETR	545,345	0.243	0.182	0.231
CommitJobs	8,676	2.132	2.617	0.000
CommitJobsMissing	8,676	0.539	0.499	1.000
CommitCapital	8,676	3.874	6.952	0.000
CommitCapitalMissing	8,676	0.757	0.429	1.000
ContribCand1	545,345	0.020	0.138	0.000
ContribCand2-5	545,345	0.016	0.124	0.000
ContribCand6-10	545,345	0.007	0.085	0.000
ContribCand11	545,345	0.038	0.192	0.000
ContribDemOnly	545,345	0.012	0.108	0.000
ContribRepubOnly	545,345	0.018	0.133	0.000
ContribDem&Repub	545,345	0.051	0.219	0.000
ContribGubOnly	545,345	0.013	0.111	0.000
ContribLegOnly	545,345	0.028	0.164	0.000
ContribGub&Legis	545,345	0.040	0.196	0.000
$\Delta Employees_{t+1}$	138,297	-0.071	0.340	-0.009
$\Delta Employees_{t+2}$	125,828	-0.076	0.412	-0.018
$\Delta Employees_{t+3}$	113,250	-0.074	0.472	-0.029
$\Delta Payroll_{t+1}$	144,253	-0.028	0.351	0.020
$\Delta Payroll_{t+2}$	130,905	0.001	0.456	0.038
$\Delta Payroll_{t+3}$	117,461	0.037	0.551	0.054
$\Delta Establishments_{t+1}$	223,731	0.021	0.221	0.000
$\Delta Establishments_{t+2}$	202,845	0.038	0.309	0.000
$\Delta Establishments_{t+3}$	182,524	0.057	0.389	0.000
SubsidyCnt_State	244,051	0.035	0.236	0.000
ContribCandCnt_State	244,051	0.198	0.732	0.000

Note: Variables are defined in Appendix C.

TABLE 2
Relation between Subsidies and Political Contributions

Panel A: Full sample

Variables	[1]	[2]	[3]	[4]	[5]	[6]
		Y = Subsidy			Y = SubsidyAmt	
Contrib	0.041***			0.537***		
	[7.470]			[7.295]		
ContribAmt		0.005***			0.071***	
		[7.637]			[7.433]	
ContribCandCnt			0.018***			0.236***
			[7.654]			[7.459]
StateImportance	0.018***	0.017***	0.016***	0.229***	0.219***	0.215***
	[4.085]	[4.052]	[3.966]	[4.170]	[4.138]	[4.051]
Observations	545,345	545,345	545,345	545,345	545,345	545,345
Adjusted R^2	0.094	0.095	0.095	0.093	0.094	0.095
Company-Yr FE	Y	Y	Y	Y	Y	Y
State-Ind-Yr FE	Y	Y	Y	Y	Y	Y
SEs Clustered by	Company, State	Company, State	Company, State	Company, State	Company, State	Company, State

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TABLE 2 (cont.)
Relation between Subsidies and Political Contributions

Panel B: Requiring operations in state *k*

Variables	[1]	[2]	[3]	[4]	[5]	[6]
	Y = *Subsidy*			Y = *SubsidyAmt*		
Contrib	0.044***			0.577***		
	[6.166]			[6.041]		
ContribAmt		0.006***			0.076***	
		[6.272]			[6.139]	
ContribCandCnt			0.018***			0.241***
			[6.329]			[6.260]
StateImportance	0.017***	0.016***	0.016***	0.213***	0.203***	0.199***
	[4.855]	[4.755]	[4.627]	[4.865]	[4.772]	[4.657]
Observations	123,928	123,928	123,928	123,928	123,928	123,928
Adjusted R^2	0.164	0.165	0.165	0.161	0.163	0.163
Company-Yr FE	Y	Y	Y	Y	Y	Y
State-Ind-Yr FE	Y	Y	Y	Y	Y	Y
SEs Clustered by	Company, State	Company, State	Company, State	Company, State	Company, State	Company, State

TABLE 2 (cont.)
Relation between Subsidies and Political Contributions

Panel C: Requiring material operations in state *k*

Variables	[1]	[2]	[3]	[4]	[5]	[6]
	Y = *Subsidy*			Y = *SubsidyAmt*		
Contrib	0.047***			0.650***		
	[4.100]			[4.509]		
ContribAmt		0.006***			0.090***	
		[4.645]			[5.080]	
ContribCandCnt			0.021***			0.294***
			[5.133]			[5.579]
StateImportance	0.016***	0.015***	0.015***	0.206***	0.199***	0.195***
	[4.444]	[4.354]	[4.306]	[4.444]	[4.349]	[4.287]
Observations	27,131	27,131	27,131	27,131	27,131	27,131
Adjusted R^2	0.209	0.211	0.211	0.217	0.219	0.220
Company-Yr FE	Y	Y	Y	Y	Y	Y
State-Ind-Yr FE	Y	Y	Y	Y	Y	Y
SEs Clustered by	Company, State	Company, State	Company, State	Company, State	Company, State	Company, State

TABLE 2 (cont.)
TABLE 2 (cont.)
Relation between Subsidies and Political Contributions

Panel D: Requiring *Subsidy*=1

Variables	[1]	[2]	[3]
	Y = *SubsidyAmt*		
Contrib	0.507***		
	[7.167]		
ContribAmt		0.058***	
		[7.338]	
ContribCandCnt			0.185***
			[6.364]
CommitJobs	0.553***	0.551***	0.552***
	[5.118]	[5.129]	[5.191]
CommitCapital	0.438***	0.437***	0.438***
	[6.377]	[6.377]	[6.362]
CommitJobsMissing	2.306***	2.287***	2.280***
	[3.759]	[3.744]	[3.765]
CommitCapitalMissing	5.418***	5.405***	5.431***
	[4.696]	[4.694]	[4.696]
StateImportance	0.178***	0.173***	0.167***
	[4.849]	[4.760]	[4.639]
Size	0.157***	0.152***	0.150***
	[4.687]	[4.628]	[4.641]
Leverage	0.150	0.144	0.146
	[0.585]	[0.555]	[0.560]
CashETR	-0.209*	-0.205	-0.210
	[-1.714]	[-1.667]	[-1.665]
Observations	8,676	8,676	8,676
Adjusted R^2	0.568	0.569	0.570
Company-Yr FE	N	N	N
State-Ind-Yr FE	Y	Y	Y
SEs Clustered by	Company, State	Company, State	Company, State

Notes: Variables are defined in Appendix C. We estimate OLS regressions, and present t-statistics in brackets below coefficients. ***, **, and * represent statistical significance at the 1, 5, and 10 percent level, respectively, based on two-tailed p-values.

TABLE 3
Relation between Subsidies and Political Contributions: Time-Series Variation within a State

Panel A: Full sample

Variables	[1]	[2]	[3]	[4]	[5]	[6]
	Y = Subsidy			Y = SubsidyAmt		
Contrib	0.007**			0.082*		
	[2.071]			[1.915]		
ContribAmt		0.001**			0.017**	
		[2.580]			[2.405]	
ContribCandCnt			0.005**			0.064**
			[2.362]			[2.168]
StateImportance	-0.002	-0.002	-0.002	-0.036	-0.036	-0.036
	[-1.089]	[-1.090]	[-1.082]	[-1.105]	[-1.106]	[-1.099]
Size	0.001	0.001	0.001	0.011	0.011	0.010
	[0.654]	[0.620]	[0.607]	[0.823]	[0.789]	[0.780]
Leverage	0.005	0.005	0.005	0.064	0.063	0.063
	[1.380]	[1.371]	[1.370]	[1.461]	[1.452]	[1.452]
CashETR	0.000	0.000	0.000	0.007	0.007	0.007
	[0.170]	[0.163]	[0.175]	[0.503]	[0.497]	[0.510]
Observations	545,345	545,345	545,345	545,345	545,345	545,345
Adjusted R^2	0.297	0.297	0.297	0.297	0.297	0.297
Company-State FE	Y	Y	Y	Y	Y	Y
State-Ind-Yr FE	Y	Y	Y	Y	Y	Y
SEs Clustered by	Company, State	Company, State	Company, State	Company, State	Company, State	Company, State

TABLE 3 (cont.)
Relation between Subsidies and Political Contributions: Time-Series Variation within a State

Panel B: Requiring operations in state _k_

Variables	[1]	[2]	[3]	[4]	[5]	[6]
	Y = _Subsidy_			Y = _SubsidyAmt_		
Contrib	0.011*			0.139*		
	[1.782]			[1.726]		
ContribAmt		0.002**			0.023*	
		[2.046]			[1.916]	
ContribCandCnt			0.007**			0.085*
			[2.146]			[1.905]
StateImportance	-0.002	-0.002	-0.002	-0.035	-0.035	-0.034
	[-0.863]	[-0.861]	[-0.844]	[-0.947]	[-0.944]	[-0.928]
Size	0.006**	0.006**	0.006**	0.077**	0.074**	0.074**
	[2.179]	[2.101]	[2.100]	[2.168]	[2.097]	[2.110]
Leverage	-0.006	-0.006	-0.006	-0.056	-0.056	-0.054
	[-0.685]	[-0.681]	[-0.671]	[-0.526]	[-0.521]	[-0.511]
CashETR	-0.004	-0.004	-0.004	-0.044	-0.044	-0.043
	[-1.380]	[-1.384]	[-1.380]	[-1.081]	[-1.085]	[-1.079]
Observations	123,928	123,928	123,928	123,928	123,928	123,928
Adjusted R^2	0.320	0.320	0.320	0.311	0.311	0.311
Company-State FE	Y	Y	Y	Y	Y	Y
State-Ind-Yr FE	Y	Y	Y	Y	Y	Y
SEs Clustered by	Company, State	Company, State	Company, State	Company, State	Company, State	Company, State

Notes: Variables are defined in Appendix C. We estimate OLS regressions, and present t-statistics in brackets below coefficients. ***, **, and * represent statistical significance at the 1, 5, and 10 percent level, respectively, based on two-tailed p-values.

TABLE 4
Relation between Subsidies and Political Contribution Type

Panel A: Number of candidates

Variables	[1] Y = *Subsidy*	[2] Y = *SubsidyAmt*
ContribCand1	0.022***	0.276***
	[4.469]	[4.517]
ContribCand2-5	0.031***	0.399***
	[5.657]	[5.563]
ContribCand6-10	0.043***	0.544***
	[6.393]	[6.277]
ContribCand11	0.062***	0.822***
	[7.551]	[7.356]
StateImportance	0.017***	0.219***
	[4.009]	[4.096]
F-statistics		
ContribCand1 = ContribCand2-5	4.018**	4.895**
ContribCand2-5 = ContribCand6-10	4.626**	4.288**
ContribCand6-10 = ContribCand11	7.466***	8.778***
Observations	545,345	545,345
Adjusted R^2	0.0952	0.0941
Company-Yr FE	Y	Y
State-Ind-Yr FE	Y	Y
SEs Clustered by	Company, State	Company, State

TABLE 4 (cont.)
Relation between Subsidies and Political Contribution Type

Panel B: Candidate political affiliation

Variables	[1] Y = *Subsidy*	[2] Y = *SubsidyAmt*
ContribDemOnly	0.021***	0.270***
	[4.163]	[4.362]
ContribRepubOnly	0.024***	0.304***
	[5.367]	[5.294]
ContribDem&Repub	0.056***	0.740***
	[7.775]	[7.563]
StateImportance	0.017***	0.222***
	[4.034]	[4.119]
F-statistic		
ContribDemOnly = ContribRepubOnly	0.440	0.506
ContribDem&Repup = ContribDemOnly	30.68***	34.67***
ContribDem&Repub = ContribRepubOnly	33.17***	34.69***
Observations	545,345	545,345
Adjusted R^2	0.095	0.094
Company-Yr FE	Y	Y
State-Ind-Yr FE	Y	Y
SEs Clustered by	Company, State	Company, State

TABLE 4 (cont.)
Relation between Subsidies and Political Contribution Type

Panel C: Candidate branch of government

Variables	[1] Y = *Subsidy*	[2] Y = *SubsidyAmt*
CandGubOnly	0.026***	0.321***
	[4.133]	[4.214]
CandLegOnly	0.028***	0.366***
	[7.133]	[7.112]
CandGub&Leg	0.059***	0.783***
	[7.309]	[7.093]
StateImportance	0.017***	0.222***
	[4.080]	[4.168]
F-statistic		
CandGubOnly = CandLegOnly	0.114	0.524
CandGub&Leg = CandGubOnly	22.62***	26.01***
CandGub&Leg = CandLegOnly	27.14***	27.26***
Observations	545,345	545,345
Adjusted R^2	0.095	0.094
Company-Yr FE	Y	Y
State-Ind-Yr FE	Y	Y
SEs Clustered by	Company, State	Company, State

Notes: Variables are defined in Appendix C. We estimate OLS regressions, and present t-statistics in brackets below coefficients. ***, **, and * represent statistical significance at the 1, 5, and 10 percent level, respectively, based on two-tailed p-values.

TABLE 5
Relation between Subsidies and Future Intra-Industry Economic Growth

Variables	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
	Y = ΔEmployees			Y = ΔPayroll			Y = ΔEstablishments		
	t to *t*+1	*t* to *t*+2	*t* to *t*+3	*t* to *t*+1	*t* to *t*+2	*t* to *t*+3	*t* to *t*+1	*t* to *t*+2	*t* to *t*+3
SubsidyCnt_State	0.013***	0.014**	0.014*	0.006	0.013***	0.020***	-0.002	-0.004	-0.004
	[2.863]	[2.285]	[1.743]	[1.661]	[3.277]	[2.681]	[-1.301]	[-1.220]	[-0.815]
ContribCandCnt_State	0.002	0.002	0.002	0.002	0.002	0.003	-0.001	-0.001	-0.001
	[0.474]	[0.476]	[0.368]	[0.718]	[0.681]	[0.754]	[-1.360]	[-0.446]	[-0.536]
SubsidyCnt_State	**-0.002***	**-0.002****	**-0.002***	**-0.001**	**-0.003****	**-0.004****	**0.000**	**-0.000**	**-0.000**
* ContribCandCnt_State	**[-1.838]**	**[-2.214]**	**[-1.969]**	**[-1.317]**	**[-4.614]**	**[-3.479]**	**[0.435]**	**[-0.006]**	**[-0.186]**
Observations	138,297	125,828	113,250	144,253	130,905	117,461	223,731	202,845	182,524
Adjusted R^2	0.163	0.199	0.227	0.155	0.184	0.211	0.147	0.202	0.234
Ind-Yr FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
State-Yr FE	Y	Y	Y	Y	Y	Y	Y	Y	Y
SEs Clustered by	Industry, State	Industry, State	Industry, State	Industry, State	Industry, State	Industry, State	Industry, State	Industry, State	Industry, State

Notes: Variables are defined in Appendix C. We estimate OLS regressions, and present t-statistics in brackets below coefficients. ***, **, and * represent statistical significance at the 1, 5, and 10 percent level, respectively, based on two-tailed p-values.